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¶1. (U) The following are recent noteworthy events in the Slovak economy:

PM'S ADVISOR: REALITY WILL DIFFER FROM ELECTION PLEDGES
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¶2. (SBU) In anticipation of the GOS release of its economic plan on August 1, Emboff spoke this week with Peter Stanek, Advisor to Prime Minister Robert Fico. He said the GOS would neither re-impose the tax on dividends nor levy any special tax for monopolies. It would instead pursue the "Estonia Model," developing a combination of fees and tax deductibles to encourage corporations to spend more on education, research and development. According to Stanek, the GOS will lower value-added taxes, but only on medicines and educational materials. Foodstuffs and services mentioned during the election campaign will not be included. He added that the program will also include cancellation of healthcare user fees, increased subsidies for farmers from 55 percent to 70 percent of the EU average, and increased pensions. In addition, the GOS would unite payroll and general tax collection in order to shrink administrative costs. Since Stanek is an external advisor to Fico, it is unclear to us whether he speaks for the GOS, but we expect that the majority of his information is accurate.

PM FICO PROVIDES REASSURANCE ON 2009 EURO ADOPTION
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¶3. (U) In an interview with Reuters, Fico guaranteed that his government "will be a pro-European government, with everything that goes with that." Speaking on GOS' economic goals, Fico once again reassured the market that strong economic growth and a trimming of the state administration will help offset increased welfare payouts his cabinet is planning to adopt. "We are confident that it is possible to adopt the common European currency in 2009 and at the same time improve the living conditions of our citizens," Fico stressed. These statements did not go unnoticed in financial markets, as the korun strengthened gradually over the course of the week.

CENTRAL BANK LIFTS BENCHMARK RATES

¶4. (U) Earlier this week, the Slovak central bank lifted its benchmark 2-week repurchase tender rate by 50 basic points, i.e. from 4 to 4.50 percent, effective July 26. Other key rates were also lifted. This marks the third time the central bank has raised interest rates since March 1, by a total of 150 basic points. The rate hike came as no surprise given rising inflationary pressures from record oil prices and the central bank's dwindling reserves as a result of interventions to strengthen the currency. The bank warned that more hikes could come this year as it works to safeguard Slovakia's Euro adoption plans by keeping inflation low.

WORLD BANK PRAISES SLOVAKIA FOR LOWER CORRUPTION
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¶5. (U) In its latest survey on corruption, the World Bank said Slovakia, Georgia and Estonia were major success stories in fighting corruption in recent years. "Slovakia and Estonia are among the transition countries that have moved to flat-rate taxation that both simplifies tax collection and reduces tax evasion," the bank stated. This is the World Bank's third anti-corruption survey of Turkey and the 26 post-communist countries in Eastern Europe and Central Asia. The survey found bribery on the decline in many countries but that corruption still tended to be worse than in Western Europe. The Kyrgyz Republic, Russia and Albania are among the countries where corruption is said to be getting worse.

THREE PARTIES INTERESTED IN THIRD GSM LICENSE

¶6. (U) According to the Slovak Telecommunications Authority, three entities have placed preliminary bids for Slovakia's third mobile phone GSM and UMTS operating license. Bidders are: Spanish telecom company Telefonica O2; Telekom Austria Mobilkom; and a consortium of Czech telecom firm Ceske Radiokomunikace and the Czech-Slovak investment group Penta. The minimum bid for the 20-year license is SKK 100 million. The two existing operators on the Slovak market are France Telecom's Orange and Deutsche Telekom's T-Mobile.

GOS SEEKS TO SCRAP AIRPORT PRIVATIZATION

¶7. (SBU) A reliable source from the Ministry of Finance told Embassy FSN that the new GOS was eager to cancel the former government's airport privatization deal. Early this year, former Prime Minister Dzurinda approved sale of a 66 percent share in Slovakia's two major airports, Bratislava and Kosice, to a consortium of TwoOne of Austrian Schwechat Airport and Penta. The deal is now subject to confirmation by the Anti-Monopoly Office.

Prime Minister Fico said to the press that his administration will respect the decision of the Anti-Monopoly Office, but quickly added that "this privatization was a political and economic mistake" of his predecessor.

Vallee